RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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August 8, 1984 LETTER 893

July 27, DJIA 1114.62; PTI 1535; A-D Ratio –23.20
Aug. 3, DJIA 1202.08; PTI 1554; A-D Ratio –21.48

THE MARKET: What hath Wall Street wrought? Does anything Wall Street does make sense? Yes, in retrospect, everything the market does makes sense. But I emphasize the words, "in retrospect."

On July 24 the D-J Industrial Average dropped to a closing seventeen month low of 1086.57. The July 24 low took the Dow exactly .33 below its preceding June low. The July 24 Dow low was accompanied by new 1984 lows in almost all the other averages from the S & P 500, the S & P Financials, Utilities and Transports to the NYSE Composite as well as all the other NYSE averages.

The next day everything changed. The market started up–but gingerly. The rise continued. On August 1 the gingerliness (backed by a surging bond market) turned to something akin to hysteria on the upside with the Dow up 19, Transports up 12 and volume at 127 million. August 2 saw the hysteria turn to hyper-hysteria with the Dow up 31, Transports up 26 and NYSE volume at a record 174 million shares!

Note on the page 1 chart that the D-J Averages are now closing to their May 2 peaks of 1186.56 (Industrials) and 517.08 (Transports). A joint bettering of the May 2 peaks would, in my opinion, be impressive. In fact, I would say that a joint bettering of the May 2 lows would suggest that the bear market could be over, and that a new bull market may have been born at the July lows.

Why do I say this? I go back to Robert Rhea's comment that if the Averages turn up from low points, and continue up until they better the previous secondary highs, the inference is that the primary direction had changed. The May 2 peaks represent the most important peaks of 1984. If, and I say IF, they are bettered, I think there is a good chance that the market will be telling us that the bear market is over. I will want to see more, but I would be impressed with a bettering of 1186.56 and 517.08.

Judging by calls coming into this office, the most plentiful commodity on Wall Street right now is confusion. No one is certain about what is occurring or what to do. The bulls are buying with whitened knuckles. The bears are covering their shorts and nursing their wounds.

In this kind of confused situation, I place a good deal of emphasis on the action of my Primary Trend Index (see page 2 chart). As you can see, the PTI has been declining in almost a straight line ever since its January 17 peak. On July 24 the PTI recorded a bear market low of 1519. This represented a tremendous drop from its January 17 peak of 1787, a drop of 268 points in seven months!

I have drawn a declining trendline over the PTI, a trendline connecting the January, March and April peaks. Currently, the PTI would intersect the declining trendline at a value of 1560. My feeling is that a rally in the PTI above 1560 would be IMPORTANT in that it would reverse a seven month trendline from bearish to bullish.

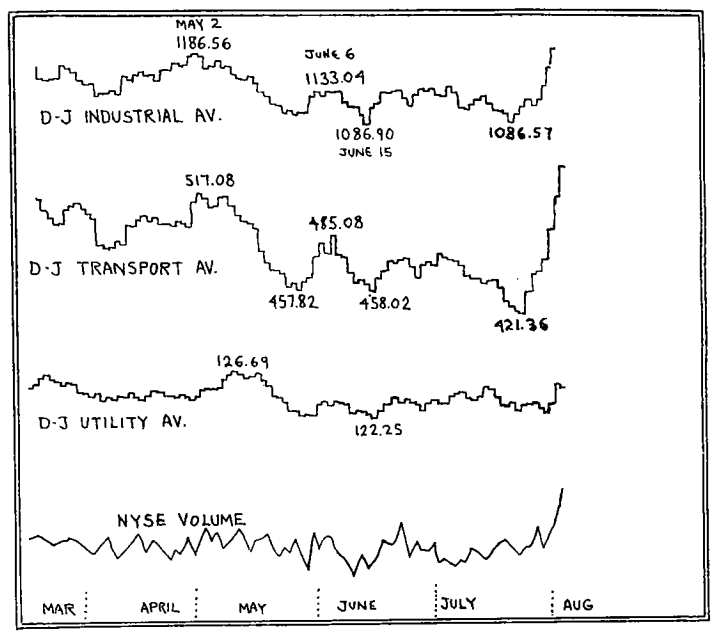
Now note the declining 21-week moving average of the PTI. The 21-week MA will be at roughly 1600 by the time you receive this Letter. I would accept any rise by the PTI above 1600 as a full fledged reversal of the trend in this index. And such crossings are considered important–and bullish.

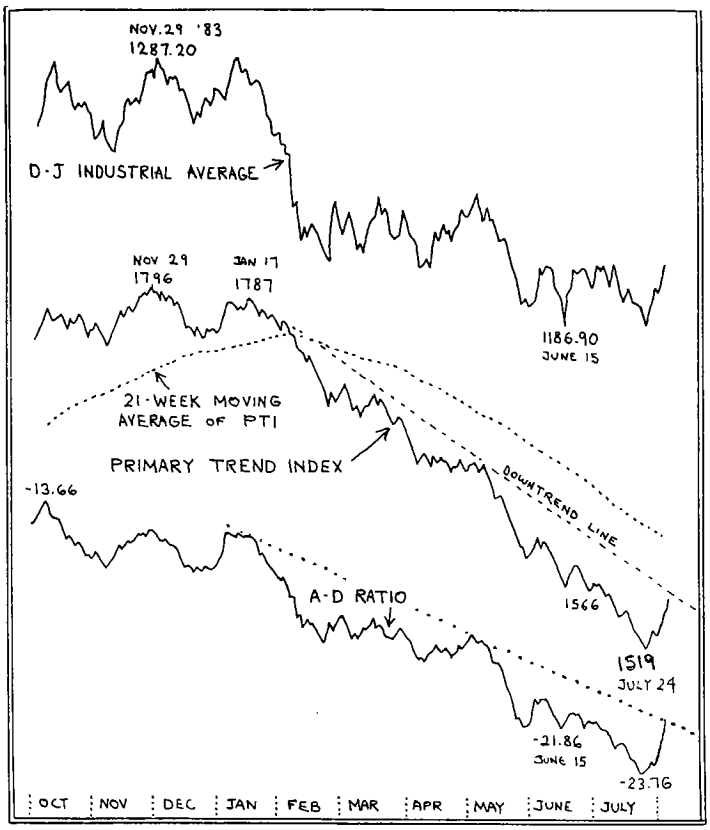
The PTI does not cross its 21-week MA casually. Since mid-1982 there have been only two PTI crossings, the first to the upside on September 21, 1982 and the most recent being to the downside on February 6, 1984.

Question: What do we, as investors, do now?

Answer: Those who are speculative minded or who are willing to possibly jump the gun can buy strong shares (preferably in the Dow stocks) on a reversal of the PTI declining trendline. This could occur on any broad market strength on Monday, August 6. My own preference would be to wait for a decisive crossing by the PTI above its 21-week MA. Such a crossing would take time, but waiting for an actual crossing is often a way of *avoiding costly whip-saws.* And whip-saw is the bane of every speculator and investor.

Question: How would you operate if the PTI turns solidly bullish?





Answer: I would switch back into the no-load equity funds. I might also buy some of the strongest Dow stocks. These are American Brands, Eastman Kodak, General Foods, Minnesota Mining, Proctor & Gamble, Sears, United Technology, Woolworth.

Question: Russell, do you consider the extraordinary action of August 1 – 3 as an upside blow-off within the context of a bear market or the trigger that is heralding the start of a new bull market?

Answer: Too early to tell. Nobody alive can answer that question with any authority, but I will wait for the PTI and the 1186.56 (Industrials) and 517.08 (Transports) points to give me the answer.

Question: What do you see that may have set off this wild market rise?

Answer: If I had to point to one area, I would say it was the bond market. I believe that by August 1 the stock market became convinced that the bond market had turned bullish and that the low of May 31 represented THE LOW for bonds. I have been discussing that May 31 bond low in every Letter written during June and July.

Question: What was the meaning of that fractional new low in the Dow of 1086.57?

Answer: In market history it is not unusual for one average or the other to penetrate a previous low fractionally, in an effort to see whether such "scare tactics" can flush out any further selling of shares. If sellers fail to appear on the penetration, then the market will often turn around and head higher. The .33 penetration by the Industrials (along with new lows all around in the NYSE and S & P Averages) failed to bring out any follow-up selling. This was the technical signal for the turn to the upside.

Question: What about the advance-decline line?

Answer: The A-D ratio on the NYSE turned bearish on June 13, 1983 (see page 2 chart). The A-D line has been declining for 14 months, which is a long time for any broad market measure to decline. I have drawn a declining trendline connecting the January and May peaks in the A-D ratio. Currently, the daily A-D line is only a fraction below its trendline. I would consider a rise of the A-D ratio above its declining trendline to be bullish for the market. A reversal of the trend of the A-D ratio could set the stage for a further broad rise in the market, a rise that would include the great majority of stocks on all exchanges (as opposed to the narrow kind of rise that we have seen so far on rallies).

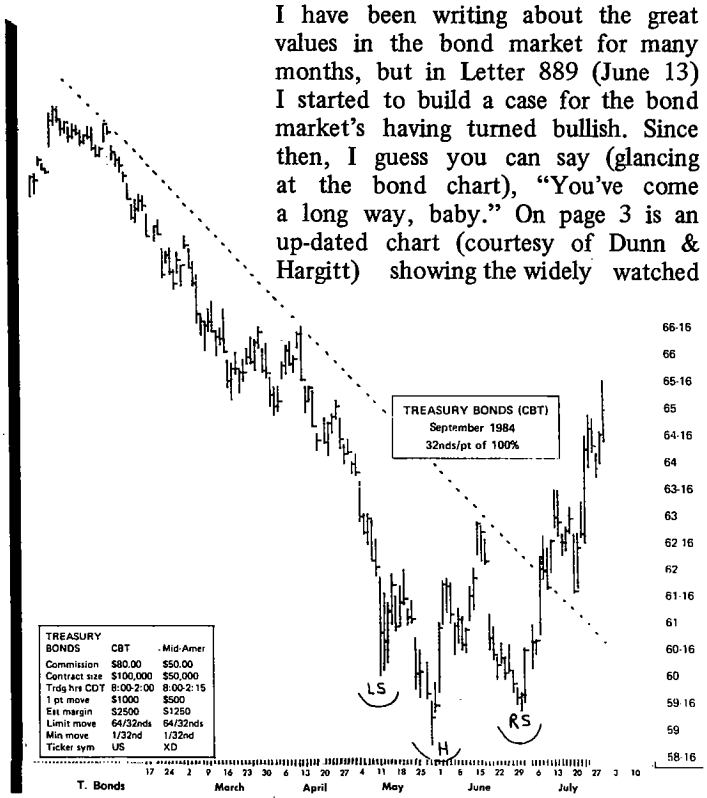
Question: If you were going to enter this market, at what point would you enter?

Answer: In the majority of cases, where panic buying occurs (as on August 1, 2, 3) the market pulls back within a month or so, and prices will usually slide back into the panic buying area again. Note on the daily WSJ chart that there was an upside gap produced in the 488-490 area on the D-J Transports. Although gaps are not always filled, gaps in the averages are usually indicative of frenzied action. As a rule, I do not like to be part of the frenzy. Therefore, my feeling is that the excesses of this advance will be worked off in due time. That time would be a better and saner time to buy.

INVESTMENT POSITION: I drew a special animal for this week's box. It's a Question Marcus with horns, an animal only found in the canyons of Wall Street. Now here's what I actually think–in view of what's happening. I've been through a number of these "explosions" and there is no brilliant course of action. You can jump in and chase 'em (and get killed by the specialists, who are marking everything up as high as they can), you can wait, you can buy a little. The fact is that no one knows exactly what is going on, and after a 14-month bear market and a three-day rally, you can't expect anyone to know. My instinct says, "Sit tight, don't do anything on the basis of emotion." And emotion is where this market is.

Personally, I'm going to wait for the PTI to tell me the story. And if that story takes time (which it will), I've got the time.

BONDS, RATES: Why the interest in bonds? Aside from the fact that bonds tend to reflect the market's appraisal of long-term interest rates, the profit potential in high-rated long-term bonds is considerable. Contravisory of 37 Derby St., Hingham, MA 02043 was kind enough to send me this breakdown: Taking the US Treasury 8¾% of 2003-2008 at a current price of 67 and yielding 13.4% (these figures are now a bit outdated, but they will serve), with a decline of 1% in interest rates these bonds would rise to 72 and provide a total 12-month return of 20%. A decline of 2% in interest rates would take the bond to a price of 78 for a total 12-month return of 29%. A drop of 3% in interest rates would take the price of this bond to 85 for a total return (interest plus appreciation) of 40%. And that is the mathematics of the bond situation at this time.

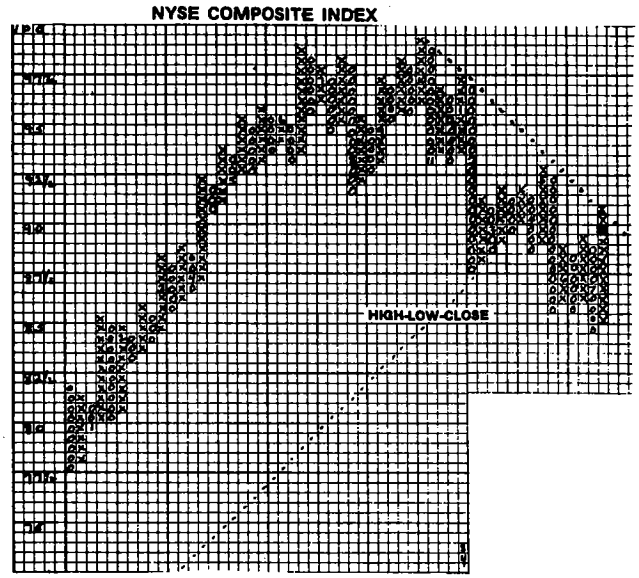


I have been writing about the great values in the bond market for many months, but in Letter 889 (June 13) I started to build a case for the bond market's having turned bullish. Since then, I guess you can say (glancing at the bond chart), "You've come a long way, baby." On page 3 is an up-dated chart (courtesy of Dunn & Hargitt) showing the widely watched September 1984 Treasury bond contract. Coming off what I considered (and still do) a head-and-shoulders bottom, the bonds have now climbed from their extreme May 30 low of just over 58½ to the 65 level, a gain of 6.5 points or 11%. Add a yield of 13.5% to that 11% and you get a total return of over 23% for those who bought the Treasuries near the bottom.

Those are the plays many sophisticated investors like. Buy 'em near 59. If you're wrong, you sit with a yield around 13.5%. If you're right, you get 25% of your money back in two months (before taxes, of course). Is this what I did? Yes, it is except that I bought munis instead of Treasuries. And I didn't buy the futures contracts, I bought the real thing.

What about the bonds now, after their big move during July and early August? My feeling is that the bonds need a well-deserved rest. But this is a very depressed, very sold out market, and who knows? Haven't they been saying for two years that the dollar needs a rest? Today's markets are wild and crazy. A friend called to tell me that today's conditions call for steady nerves, good judgment, a knowledge of return on investment–and plenty of Valium. I agree.

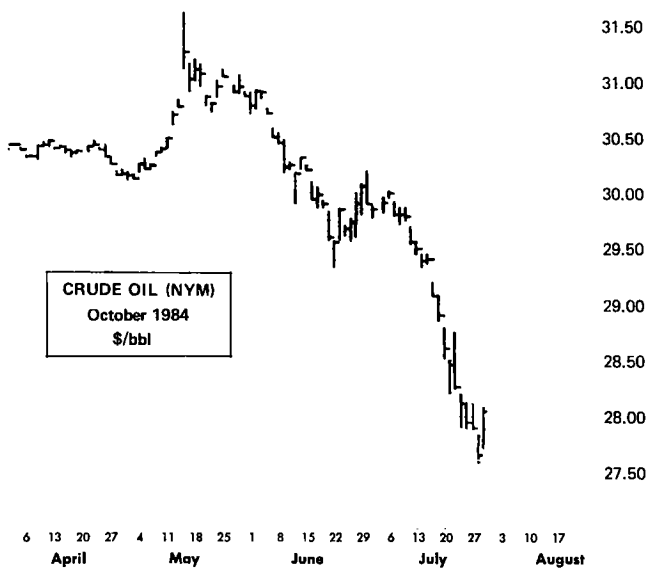
PERSPECTIVE: A point & figure chart often provides perspective, and perspective is valuable. This chart of the NYSE Composite Index (courtesy of Chartcraft, Larchmont, NY) shows the index breaking to the 1984 low of 85, then rallying to its current value above 90. I have marked the 90 box in solid black. When, on the rally, the NYSE Index struck 90 the P & F chart turned bullish, at least on an intermediate basis. At 91.5 the NYSE Index would move above the bearish trendline (dotted line on the chart). Bettering 91.5, the next target would be the 93 peak struck last May. If 93 is bettered, the bull case would be greatly enhanced.



OIL: In recent Letters I commented that the bond chart was probably the most important single chart in the US today. Now I feel that another chart has superseded the bond chart. This is the chart of crude oil. From a price of over $31.50 in May, crude has plunged to last weeks low of just over $27.50, a drop of almost 13% in a matter of three months.

Iraq and Iran fighting, oil tankers ablaze in the Persian Gulf, and the price of oil weak! Who would have believed it even a year ago? What's happening? Consider this: in 1979 the West got 19 million barrels of oil a day from the Mideast or 37% of its total supply. Last year the West got 7.5 to 8 million barrels a day from the Mideast or 17% of its supply. Today, despite the Iraq-Iran war, there exists a huge oil surplus of 4.5 million barrels a day. Furthermore, with the rise of gas-saving engines, the surplus could rise. And if a world recession should hit–the West would be drowning in oil.

On top of everything else, the Russians are selling oil at $27.50 and the Saudis are dumping oil under the market. All of which is great for those who heat their houses with oil and those who own a car. But what about the nations that produce the oil? And what about the billions of dollars loaned out by banks to oil companies, banks figured that that oil was steady at "above $30" and probably heading for near $50 by 1990?



I would say that oil below $25 would be a scary proposition and oil below $22 would be a near-disastrous situation. The drop in oil confirms the weakness in precious metals and it confirms today's deflationary atmosphere. But the bonds–they love it. And Wall Street does too–for now.

QUESTIONS & ANSWERS: Russell, I've heard all this talk about the Dow Theory for years. Who actually invented the Theory? Where did it come from?

Answer: The Theory is actually a collection of observations put together by a group of brilliant market writers. Charles Dow in a series of editorials in the WSJ around the turn of the century wrote about the stock market as a barometer of business. Dow observed the various movements within the market, and he invented his stock averages to prove that stocks move in trends rather than helter-skelter. After Dow's death in 1902, S.A. Nelson collected many of Dow's editorials and put them together in a book entitled "The ABC of Stock Speculation." In footnotes, Nelson referred to Dow's editorials as "Dow's Theory." This was the first time the phrase Dow's Theory was ever used. The phrase became part of the Wall Street vernacular.

After Dow came his WSJ understudy and editor, William P. Hamilton. Hamilton wrote for both Barron's and the WSJ between 1903 and 1929. Hamilton's brilliant editorials were widely followed, and it was Hamilton who further refined Dow's observations and used them as aids in predicting the direction of the market. Hamilton's classic book, "The Stock Market Barometer," was a milestone in the literature of Wall Street and to this day remains a key to understanding the market.

Robert Rhea, a close student of Hamilton's, started his market service in 1932, at which time he "called" the greatest market bottom in history to the exact day (July 8, 1932). Rhea garnered a large following during the 1930s, and his letters are (to my mind) the most edifying and brilliant ever written on the stock market. Rhea (bedridden because of a plane crash) died in 1939. But he codified and refined the Dow Theory and must go down as one of the great minds of Wall Street (even though he did all his writing from Colorado Springs).

E. George Schaefer started his Dow Theory service in 1948. Schaefer called the great market bottom of 1949 to the day (June 13). During the 25 years that Schaefer wrote his "Dow Theory Trader" he enlisted a large following. Schaefer applied many technical studies to Dow Theory, thereby heightening the accuracy of the Theory. To my mind, Schaefer was the greatest exponent of investing with the primary trend. Schaefer's understanding of the primary trend and his ability to identify the primary trend was undoubtedly the finest in stock market history. Schaefer committed suicide under tragic circumstances in 1974. Many veteran readers remember Schaefer's extraordinary 3 and 4 page advertisements that appeared in Barron's and Forbes during the 1960s. Those who listened to Schaefer and followed his advice made money, and in many instances big money.

Question: Russell, how come you don't use a daily hotline the way so many services do?

Answer: To my mind, hotlines are like 11A.M. quotes on a stock. Most of the time quoting stocks during the day is just a way of raising your blood pressure. When I first started in this business I used to spend half my time in the boardrooms. In retrospect, it was an almost total waste of time.

I feel somewhat the same way about hotlines. Such service is the financial counterpart to the baby pacifier. Most of my advice and observations have to do with investing and procedure aligned with the market's primary trend. The major trend doesn't turn in an hour or a day. Furthermore, longer-term decisions are usually made well in advance and not on the basis of something that happened "today at 11:35 A.M."

Readers note that I usually discuss forthcoming possibilities such as the averages breaking or holding above certain levels. It doesn't require a hotline to follow such instructions. At any rate, I have purposely avoided the excitement and high pressure of a daily hotline. But I'm willing to admit that maybe I'm just old fashioned. After all, I still type on an Olympic manual typewriter.

Question: Russell, branching off from intra-day data, I note that you use only the closing of the Dow Averages. Why?

Answer: I long ago concluded that the Dow Theory procedure of using only closing prices is the best one. During the day, stocks (and averages) can be subject to news, manipulations, high emotions,feverish trading. But by day's end things usually simmer down, and most of the day-traders have cleared out. Then we have what I term "the honest prices." I like to read the averages minus the day-traders and the in-and-out traders. Thus, I feel that the closing prices are the really significant ones (and all previous Dow Theorists agree with this stand).

Question: In writing about bonds and more specifically muni bonds, you do not mention insured bonds or insured bond funds. Why not?

Answer: Two reasons: First, I like a bond to stand on its own. In other words, if it has to be insured to get a good rating, I don't want it.

Second, if you buy an insured bond you have two things to worry about–the safety of the bond and the safety of the insurance company that insures the bond. My own feeling is that if events ever get super-rough, the insuring agencies could have troubles of their own. No, I'd rather just buy AA or AAA rated bonds and depend on quality.

Question: Russell, you've been writing about deflation. Are you seriously thinking that the Fed will allow the markets to deflate?

Answer: When the primary trend is down, the markets are in the grip of the strongest force in the investment world. That force is usually associated with (1) correcting the overindulgences of the previous bull market, (2) squeezing the water out of the economy, (3) liquidating the weak financial structures, (4) shaking the whole financial structure and seeing what falls down. We could conceivably be there now. Although government (the Fed) can heat up a dull bull market, it is highly questionable whether it can turn around a sinking bear market.

As a matter of fact, the more the government messes with a bear market (i.e., interferes with the corrective process), the more weaknesses and instabilities it builds into the financial structure. Thus, government interference will ultimately make a bear market that much worse. Free markets tend to be self-correcting markets. As a rule, the more the government gets into the markets, the bigger the booms and (ultimately) the bigger the busts.

On July 23 (for the first time) the *New York Times* presented a page 1 article on deflation. This was the first major notice that the prices of everything were heading down. Because most of the swooning prices are at the wholesale level (but not all of them), it may be some time before the public realizes that the environment is deflationary. The Fed probably recognizes this now. But I doubt if they know what to do about it or which way to turn.

Question: What about the Kondratieff cycle or long wave? Are we in a precarious position from the long wave standpoint now?

Answer: I'm not sold on the Kondratieff wave theory, but if you believe in the long wave cycle you are probably bearish now. Donald Hoppe and Julian Snyder both believe in (and are experts on) the long wave and both are bearish. Julian has published a book entitled "The Long Wave Cycle" which is a translation of the theory as presented by Nikolai Kondratieff. The book is $30 and can be obtained at a bookstore or from Richardson & Snyder, 25 Broad St., NYC 10004.

The long wave is roughly a 54 year wave, and it is now 55 years (a Fibonacci number) since 1929. Since 55 years is about two generations, you might say that it takes two generations to go from abject pessimism to hope and finally to exuberance. Then it's over the waterfall and into the abyss again. I just don't know. I've never been convinced of periodicity in the stock market, but a lot of excellent minds are sold on this concept. I continue to base most of my conclusions on *market action,* and as you know that's what I write most about.

Question: I notice that you have been writing more than usual about commodities. Why?

Answer: Aside from the fact that commodity prices are one of our most accurate gauges of deflation or inflation, what commodities do affects both the US and the world. Consider this: as far as our loans to foreigners are concerned, the biggest single factor is interest rates. Every 1% rise in US interest rates costs the borrowing nations billions in extra interest (since most of the loans were put out at slightly above above LIBOR (London International Bank Rate)).

Secondly, with interest costs sky-high, the most disastrous thing that can happen to a developing nation is to have its raw material prices (and most of the developing nations ship raw materials) collapse. That is what has been happening with copper, coffee, sugar, lumber, soybeans, etc.

On top of that, the US farmer with heavy loans outstanding, is now getting badly squeezed by falling commodity prices. In turn, this sends the value of farm land down,since the land produces losses instead of profits. Thus, a bear market in commodities (such as now) can be a very fearful situation.

Question: You've stated that we're in a bear market, yet you never advise short selling or puts or selling the futures short. Why?

Answer: Mainly because I don't like to see my subscribers lose money. And secondly, because whatever money the average reader makes in this business, he usually makes it by investing rather than speculating.

I've discussed puts and options many times before. My objection to them is basically that when one buys an option he is *playing against time.* My philosophy is that I like to USE time, I don't like time USING ME. If I buy a bond or a good yielding stock I have time on my side. The longer I hold the item, the more I collect. For instance, if I buy a muni bond yielding 10%, in three years I have almost one-third of my money back with no taxes to pay on the return. But if I buy an option or a futures contract, time works AGAINST ME. If I don't have a profit in a month or six months (or whenever the option expires), I've lost my capital.

Next, when you speculate today you are putting up hard, after-tax dollars to buy a security. If, and I say IF, you are lucky enough to sell at a profit, you must nevertheless pay a tax on your profits. That's a tough proposition. I'm not saying that you can't make money trading. I just say that it's hard, very hard.

In commodities there is another problem. If you trade commodities, sooner or later you are going to be caught in a "limit-down" price movement or two or three days of limit-down. When that happens, you lose both your money and your sleep. To my mind, it isn't worth it. A few limits-down can wipe out the profits of a year (assuming you made any profits during the year). The limit-down situation alone would be enough to keep me out of the futures.

As for shorting stocks, I find that most subscribers don't have the temperament for it. They get a little ahead, and the first sharp market rally sends them out with a loss (and a rapidly beating heart). Also, the mathematics of the short side is something that every veteran stock buyer knows about. On the long side all you can lose is your entire investment, no more. Short a ten dollar stock and it can turn around and go to the moon (or at least it feels like it can). Thus, the short side is the tough side (and remember, you pay out the dividends on the short side rather than receive them).

So in a bear market it is enough for me to be in cash and watch the market go down. AS the market declines you know that your cash will buy more and more in terms of stock values, and that's good enough for me.

Question: How important is the election and politics here?

Answer: Very important. The history of the Democrats is one of spending, spending, taxing, taxing, and trying to get elected again. The history of the Republicans is trying (very ineffectively) to repair what the Democrats have done to the economy. So far, I give BOTH parties a big F as far as the economy is concerned. The current massive deficits are a total disgrace, and Reagan has been as dishonest about it as was Roosevelt, Kennedy, or Carter.

But at least Reagan has the right idea. Ineffective as he's been in reducing the deficits, I believe he would like to do just that. So I feel that the only chance we have is with Reagan. Mondale, in my opinion, doesn't even understand how the economy works. His idea would be to cut the military and shift the difference over to consumer spending.

What would I do? I would make an across the board cut of 20% in every government agency from one end of Washington to the other–no exceptions. And I'd cut out some agencies completely. Then I'd cut about $50 billion of fat out of the military and I'd raise taxes to collect another $100 billion (via a federal sales tax). Then I'd sit back and watch the bond market head for outer space. Next, I'd campaign for a Constitutional amendment mandating a balanced Federal budget.

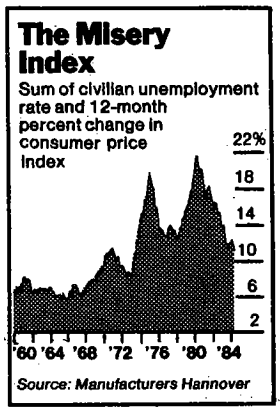
Oh yeah, I've read about how Wall Streeters love the Republicans but the markets love the Democrats. That was true in the past, when we could sit back and watch the Dems jazz up the economy with new spending. That's not going to work any more. Reason: the bond market would have a heart attack, and interest rates would hit new all-time highs.

NOTES & QUOTES: The year 1932 was a Depression year, but the comparisons with the Olympics then and now are interesting. There were 14 events then 24 now. The budget then was $1.7 million, the budget in 1984 is $500 million. Tickets then cost $.50 to $3, today they are $3 to $200. There were 700 law officers present in 1932 and 14,000 today.

* *

Flight insurance–is it worth it? Last year 274 million people flew on planes in the US and a total of 235 people were killed. That means that the odds on you dying in a plane are less than one in a million. With those odds, my suggestion would be to start a flight insurance company. But as for buying flight insurance. . . .

Americans are optimistic, and they are spending their heads off. The year 1978 saw consumer credit rise at a record rate. This year consumer credit rose 25% faster than '78. Reason? Maybe Americans are feeling good (even though this euphoria can't last). The Misery Index has fallen in half during the 1981-84 period. With unemployment and inflation down, Americans feel that "the sky's the limit."



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Getting rid of the state: under California's century old confidential marriage law, if a couple lives together they don't need a state marriage license in order to become legally married (nor do they need a blood test). Result: 40% of all marriages in this state are completed without a marriage license.

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Do you believe that there is such a thing as poetic justice? No, then read this. It probably could only happen in Texas!

Daeshik Kim, 49, was standing on a street in Austin, Texas, talking to a friend when he saw his own pickup truck drive by. He leaped to the bed of the truck, smashed the rear window with a rake, reached in and grabbed the thief around the throat, prompting him to stop, then kept a tight hold on him until someone got the police. The culprit had picked on the wrong truck. Kim teaches karate and judo at the University of Texas.

* *

Politics: From expert sources I hear the following: Reagan's literally certain electoral votes. . . 200. Mondale's certain electoral votes . . 40. Which means that Fritz has quite a job on his hands.

In his speeches Reagan is going for the jugular. He is attacking the Democrats as being "so far left that they have left the country." I think that this approach is a very shrewd one on Reagan's part. Nobody expected Reagan to come on so strong. And he is hitting a vital nerve. The fact is that a huge part of this nation is now bringing home good salaries, and they are beginning to see themselves as capitalists. And they want to protect the fruits of their labor. They know that the Democratic party is the party of tax, spend and redistribute. My own feeling is that the Dems are fighting the last war. As I see it, Reagan could win in a landslide–if the economy holds together even reasonably well.

* *

On the economic front, events may also be going Reagan's way. By that I mean that the real squeeze on corporate profits (which is foreshadowed by the current bear market) may be held off until 1985. I quote from economists S. Jay and David Levy ("Industry Forecasts"), Box 26, Chappaqua, NY: "Corporate profits will be lower in the second half (1984) and sharply lower during the first six months of 1985" . . . . "First half 1985 earnings will be down sharply, at least 20% from a year earlier. Margins will be squeezed well into the range typical of recessions." . . . . With inflation near zero and the economy slowing down around election time, Reagan will be in good shape to win.

GOLD: My good friend Howard Ruff writes in his latest report, "Gold continues its final sell-off, creating mouth watering bargains in gold, silver, and gold stocks. . . . I'm now prepared to flatly declare that inflation bottomed in the last half of 1983 and that gold will bottom before December 31, 1984, if it hasn't already."

Frankly, I don't know if Howard is right or not. So I'm going to continue doing what I always do, and that is follow the market itself. Gold has been going down ever since 1980, and that's a long time for any bear market. But I also go on the premise that a primary bear market, once in force, will continue until proved otherwise. I have no proof that the bear market in gold is over, and certainly the oil market isn't buying the "new inflation" story yet.

Bear markets usually end in a "give up" psychology on the part of investors and speculators, and from what I see in the gold-silver arena the hard money boys and girls are still stubbornly searching for that elusive bottom. That doesn't feel like the ultimate bottom to me, but as I say, Howard could be right, and I'm keeping an open mind.

Last week's action didn't change anything as far as the technical position of gold (or silver) is concerned. The downtrend, following the severe break of early 1983, remains intact. This weekly chart is courtesy of Dunn & Hargitt, 22 N. Second St., Lafayette, IN 47902.

LATE NOTES: The statistics are mind-blowing: three days (August 1,2,3) with the Dow up 87 points on volume of over half a billion shares–the greatest upside eruption in Wall Street history, three days with a combined total of 4,390 advancing issues (NYSE) and only 871 declining issues. It's clear that two separate panics were involved, first the panic by the buyers (probably largely institutional) to "get in," and second the panic by the short sellers to cover (additional buyers).

With the D-J Industrials and Transports jointly bettering their May 2 peaks (on August 3), with the PTI verging on reversing its downtrend line, with the A-D ratio fractionally bettering its own downtrend line, the bullish case is greatly enhanced. But I still want the PTI to advance above its 21-week moving average.

NEXT MAILING: Aug. 22